

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
BOARD OF TRUSTEES MEETING
APRIL 18, 2013

Meeting of the Board of Trustees of the Northeast Ohio Regional Sewer District was called to order at 12:35 p.m. by Darnell Brown.

I. Roll Call

PRESENT: D. Brown
R. Sulik
S. Kelly
J. Bacci
T. DeGeeter
W. O'Malley

ABSENT: G. Starr

The Secretary informed the President that a quorum was in attendance.

II. Approval of Minutes

MOTION – Mayor Bacci moved and Mayor DeGeeter seconded to approve the minutes of the April 4, 2013, Board Meeting. Without objection, the motion carried unanimously.

III. Public Session

Executive Director Ciaccia informed the Board that no one signed up to speak about a specific agenda topic.

IV. Executive Director's Report

Executive Director Ciaccia informed the Board that the Stormwater Management Program (hereinafter "SMP") is going well in its first full quarter of operation. Water Advisory Committee meetings continue throughout the region. The most recent meeting was last night in Middleburg Heights. Frank Greenland, Director of Watershed Programs, and his staff report that everything is going well and there is ample interest from the communities. Revenues are being recorded and cash is coming in as expected. Phone calls to the District average about 3,000 per

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month, which is an increase of 1,000 thousand per month. Forty-two percent (42%) of the calls are SMP-related. He thought it was likely the volume of calls would taper off after the first billing cycle.

Executive Director Ciaccia advised that the first SMP-related emergency job on Warner Road is essentially complete and the temporary repairs are done. Permanent repairs will be necessary in the near future. A resolution for such would probably be presented during the next Board meeting.

The Cleveland Department of Public Utilities (hereinafter "DPU") has begun the project to separate water and sewer bills. They intend to complete the project by November. Mike McGing, of the Finance department, is attending weekly meetings and they are going very well. Questions are being answered and District feedback is being heard. District staff had an opportunity to review a proposed separate bill and requested modifications.

Executive Director Ciaccia advised that DPU will run an initial test of 50,000 accounts next week to see how it works out. He was very interested to see the results. From that point District staff will work with them on protocols regarding collections. Previously, water service was shut off if a customer did not pay their bill. DPU acknowledged that it would continue all collection activities including termination of water service for delinquent wastewater accounts.

The one outstanding issue is an analysis of the partial payment algorithm that is currently utilized on the combined bill. Money from partial payments is distributed among the various entities – the Cleveland Water Department (hereinafter "CWD"), the District and a local suburban community that might be on the bill. City of Cleveland services might be on there as well.

Splitting the bills changes the partial-payment arrangement; he wanted DPU to perform an analysis of how that might affect the District's cash. If it does not affect it, he did not think there will be an issue. DPU indicated they do not believe it has a significant impact on the District, but he would like an analysis to have that documented as this moves forward.

Moving to the topic of finances, Executive Director Ciaccia advised that revenues for the first quarter are up 10% from last year at this time, as expected. 2013 is the first year of the five-year rate increases of about 17%. When doubtful accounts are factored in, revenues decrease by a projected 5%.

Expenses have been 22% of the annual budget with 25% of the year complete. Accounts receivables continue to be watched very closely. Total accounts receivables of both active and inactive accounts are around \$78 million.

Executive Director Ciaccia stated that the meeting's agenda contains an Information Item regarding the write-off of \$15 million of uncollectable debt. Recorded collectables have

Authorization to Enter Into Agreement

Resolution No. 83-13

Agreement for Sponsorship of the 2013 Water Resource Restoration Sponsor Program.

MOTION – Mr. Sulik moved and Mayor Bacci seconded to adopt Resolution No. 83-13. After discussion and without objection, the motion carried unanimously.

Authorization to Enter Into Contract

Resolution No. 84-13

One-Year Requirement Contract with Crane America Services, Inc. for Crane/Hoist Load Testing at All Wastewater Treatment Plants and Pump Stations. Cost: \$103,007.00.

MOTION – Mr. O'Malley moved and Mayor DeGeeter seconded to adopt Resolution No. 84-13. After discussion and without objection, the motion carried unanimously.

Authorization to Retain Services and Issue Request for Proposals (RFPs)

Resolution No. 85-13

Retain Alexander L. Russo of Kowit & Passov Real Estate Group and Authorize Incidental Professional Services to Assist the District in Locating Additional Office Space for Administrative Staff; and Authorize the Issuance of RFPs for Office Space Leases.

MOTION – Mr. Sulik moved and Mayor Bacci seconded to adopt Resolution No. 85-13. After discussion and without objection, the motion carried unanimously.

Executive Director Ciaccia advised that bringing program management in-house has presented a challenge for space in the George J. McMonagle Building (hereinafter "GJM") and EMSC. Staff is looking for potential office space in the Midtown corridor area for overload.

Mr. Brown questioned whether the office space would be short or long-term. Executive Director Ciaccia stated that at this time he did not know. It would be short-term initially but long-term options need to be considered in terms of reconfiguring the GJM building to accommodate more employees. But even if we do that we're going to have to take some people out of here in the meantime in order to do that. But we know we're fast getting in a situation where we're going to need space one way or the other.

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Mr. Brown inquired about the anticipated growth of staff. Deputy Executive Director, F. Michael Bucci, advised that staff is looking for office space of 5,000 to 6,000 square feet to accommodate 20 to 30 people. Long-term staffing levels or space have not yet been studied.

Deputy Executive Director Bucci indicated Ms. Rotunno's staff examined improvements that could be made to add space to the third and first floors of GJM, but not yet for the entire building. Such an analysis would be necessary to determine long-term needs and how much staff stormwater will require. As space becomes scarce, some downtown Safety staff was moved to Easterly and part of the Audit department to Westerly. SSMO is also looking to transfer building maintenance staff. There are space issues throughout the district. An assessment is needed to determine the District's long-term needs, but in the short-term space is needed for 20 to 25 people. Additionally, there are parking concerns at GJM.

Mr. Brown inquired if this analysis includes all District facilities, including plants. Executive Director Ciaccia confirmed.

Mr. Brown stated that it is nice to have all staff in a facility, but unless customers are physically coming in to speak with customer service staff, they do not necessarily have to be in the same structure as the administrative offices. Executive Director Ciaccia agreed and stated that if there were space at the plants, accommodations would be made.

Ms. Kelly asked when the full analysis will be available. Executive Director Ciaccia advised that it would be this year.

Ms. Kelly inquired regarding the expected duration of the temporary office space. Deputy Executive Director Bucci advised it will likely be a three- to five-year lease which would provide sufficient time to conduct the study.

Ms. Kelly stated that a commercial broker has been identified and asked what the duration would be of the exclusive buyer brokerage agreement. Deputy Executive Director Bucci stated that it would be through this transaction. A different type of analysis, not with a broker, would examine long-term needs.

Ms. Kelly stated that a buyer/broker agreement usually has some type of expiration date. Alex Russo, of Kowit & Passov Real Estate Group, explained that the agreement provides for termination of the agreement by giving a 30-day notice. Ms. Kelly inquired if both parties retain that option, which Mr. Russo confirmed. Ms. Kelly stated that Mr. Russo has a stellar reputation in the industry.

Mr. Brown stated that the bottom line is an assessment will be performed and at some point a recommendation will be made that will explain the initial engagement. The Board would want some understanding on how staff is approaching long-term planning organizationally. Executive

Authorization to Donate

Resolution No. 92-13

Donate Obsolete Information Technology
Equipment to RET3 Job Corp.

MOTION – Mayor Bacci moved and Ms. Kelly seconded to adopt Resolution No. 92-13. After discussion and without objection, the motion carried unanimously.

Authorization to Enter Into Agreement

Resolution No. 93-13

Authorizing Final Settlement of *Northeast Ohio
Regional Sewer District v. 3320 Woodland
Avenue, Ltd., et al.*, Consolidated Cases 07-CV-
643897 and 08-CV-650695.

MOTION – Mr. Sulik moved and Ms. Kelly seconded to adopt Resolution No. 93-13. After discussion and without objection, the motion carried unanimously.

VI. Information Items

1. City of Cleveland Write-off of Inactive Accounts in the Amount of \$14,153,821.93.

Jennifer Demmerle, Director of Finance, stated that in October District staff met with the City of Cleveland, Department of Public of Utilities, and during that meeting they stipulated that they wanted to do an analysis on all the accounts that have been closed or considered inactive for two or more years. They came up with around \$18 million of uncollectible accounts.

They also sent this list to their collections agency, which confirmed they were uncollectible. The District wrote off the years 2004 and 2005 in December. This Information Item pertains to 2006 through 2010. To be consistent with their policy, the District used to write off accounts six years and older. Now the District is on the same schedule as CWD.

Mr. Brown stated that he was looking forward to continuing to aggressively mitigate, to the extent possible, the impacts of such a large number of uncollectable accounts. Executive Director Ciaccia stated that although the accounts are written off, it does not mean none of it will be collected. The action does, however, get rid of “clutter” on the books so staff can concentrate on pressing concerns. Executive Director Ciaccia advised that this write-off probably takes total accounts receivables down to \$60 million, of which \$51 million is active, of which 40% is current. He has had good communication with the new director of utilities as it relates to what they are doing.

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Ms. Kelly questioned the missing collection code accounts. Ms. Demmerle explained that when CWD's new billing system launched in 2009 from the AS400 to their new customer care and billing system, they stopped coding the accounts. They no longer say if it is a final bill, a foreclosure or bankruptcy. The reason certain accounts are uncollectible is unknown. The assumption is they are related to final bills.

Ms. Kelly inquired if they do not have to explain \$6 million of uncollectable billing. Ms. Demmerle stated they are final bills. Ms. Kelly questioned if some bills are errors and may be collectible. Ms. Demmerle stated that they provide the list to their collection agent and the collection agent determines whether they are uncollectible.

Deputy Executive Director Bucci stated that the District also receives a listing of every account and reviews them before writing off. Account detail is available that is more extensive than summarizing it with a code.

Ms. Kelly questioned if progress has been made with The Board of Realtors on delinquent accounts that are bank-owned. Deputy Executive Director Bucci advised not at this time. However, staff feels that the Automatic Reading (hereinafter "AMR") project will provide the ability to have instant reads. The realtors' complaint is the timing of the reads. There are 60,000 accounts already with AMR that will be 95 to 100% complete the end of next year. That should clear up many of the final bill issues.

Ms. Kelly stated that when a citizen sells their property in the City of Cleveland there has to be a letter coming from the City of Cleveland stating to the escrow agent how much money has to be held in escrow to clear up any delinquent water bills and sewer bills. She questioned why that does not apply to the banking industry. Ms. Demmerle stated that while she agrees, this write-off only contains a handful of bank-owned properties. There are about 20 banks listed and some accounts are bank-owned with a delinquent balance. Some are current.

Ms. Demmerle advised that in discussions with the City of Cleveland, they have not given up collecting from those banks. They have made some headway collecting what they owed while they owned the property. The issue is when banks do not collect from an owner before it is transferred.

Ms. Kelly stated that the delinquency goes on the tax bill, which seems to be an avenue for collecting. Deputy Executive Director Bucci advised that a lot of these properties were taken over by the bank through foreclosure. The policy of both the District and DPU is that the previous balance does not go to the new owner, which is now the bank. The old owner went into foreclosure, there is no money available, and there is no real property transfer, as far as a cash transaction.

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Ms. Kelly stated that when a bank takes over the property, they own it and have the responsibility of paying their bills. They arbitrarily decide to not going to pay this bill. She stated that her problem is at closing, the escrow agent giving them a pass on not paying their bill that was generated during the time they owned the property.

Executive Director Ciaccia stated those are great points and this will be a continuing issue. At that time, he read an excerpt from an e-mail he received yesterday from Marlene Sundheimer, Director of Law, that is somewhat responsive to this issue. In preparation for the Board Meeting staff asked about the banks.

He stated that she wrote, "I'm happy to report that they are working closely with the City Law Department and David Douglass in going after these delinquencies, especially the banks, large businesses, HUD, landbanks, and other governmental agencies. DPU sent David Douglass over 180,000 lines of bankruptcies and foreclosures to pursue collection activities."

"According to Frank [Badalamenti], about \$5.5 million to \$6 million of the total foreclosure delinquency is owed by banks and other lending institutions. David has sent out demand letters, is working through the list and has been successful in reaching settlements with many of the banks for at least part of what is owed."

"I verified that the outstanding amounts listed in the spreadsheets include both prior owner's arrearages, and arrearages accrued while the bank held title to the property. Some banks are willing to pay for arrearages that accrued while they held title to the property."

Executive Director Ciaccia stated that it is recognized as an issue and staff is making efforts to address it. Ms. Kelly stated that she would like to put a lot of energy into this because it falls back on the customers.

2. Write-off of Direct Billing Accounts in the Amount of \$4,098.63.

Ms. Demmerle stated that the District does some internal billing. The first account to be written off is a Rural Lorain water customer, which was taken over from CWD towards the end of last year. When it came into the system and it had a balance. The account was inactive account and should not have been billed out.

The second account is a \$1,000 clerical correction from two years ago.

3. Industrial Pretreatment Program Legal Notice

Mr. Greenland advised that the District is required annually to do this through federal pretreatment regulations. The District administers the federal pretreatment program locally. The

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water quality and industrial surveillance group put this list together and are required to publish it in the local newspaper on an annual basis.

The report gives an indication of the entities and industries that had some type of enforcement throughout the year. He indicated that Scott Broski, Manager of Water Quality and Industrial Surveillance, can answer any detailed questions.

Mr. Brown questioned if the report contains the entities typically on them every year, and if so, what happens to them. Mr. Broski explained that of the 22 listed this year 14 are for discharge regulation, and 5 are repeats from last year. Staff is addressing each of those five individually in taking the appropriate action. One of them had a show cause hearing request for blatant discharge. Staff worked with the Northeast Ohio Environmental Crime Task Force and they are prosecuting that facility criminally.

Mr. Broski stated that situation is in the midst of a show cause settlement negotiation. Another of the five repeats was brought in for an administrative order and compliance schedule. Staff has initiated a meeting process with the other three repeats to work on different measures to come into compliance. If they do not come into compliance, they will either be placed on a compliance schedule or will go to a show cause hearing for additional violations.

Mr. Brown stated that this is an area of interest for him and he would appreciate updates as they become available.

4. Program Management Status Report and Update – March 2013

Ms. Rotunno stated that the Euclid Creek Tunnel project is progressing well. An additional 7,700 feet of mining have been completed as of March 26. Work has been ongoing underneath the lake for quite some time and is about ready to reach Beulah Park in the weeks to come.

The outside structures continue to move along, including the final concrete lining at Shaft 5. Community meetings with Beulah Park residents and the surrounding neighborhoods continue as well.

Mr. Brown inquired how the road work is progressing. Ms. Rotunno stated that the road work associated with the tie-ins at Shaft 5 have some unique situations. A portion of St. Clair will need to be closed for about five months. Mr. Brown indicated he had not heard that before.

Ms. Rotunno advised that members of the City of Cleveland staff would have heard about it more than a year ago, but she could not ascertain why it has not been communicated up the chain of command. The official maintenance of traffic plan was submitted to traffic that shows the closure of the road and probably precipitated a lot of the excitement.

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Mr. Brown stated that he thought some resources were moved to the fire station there. He questioned what the maintenance of traffic means in terms of access for the station and EMS in that area. Ms. Rotunno advised that information is detailed on the Maintenance of Traffic Plan (hereinafter "MOT"). She also stated that the Ohio Department of Transportation (hereinafter "ODOT") closed East 185th for a substantial period of time when they were rebuilding the bridge over the railroad. There has been other utility work by AT&T at the intersection of East 185th and St. Clair that resulted in closures. District staff plans to piggyback the MOT on those plans which have been used in the past. That is was submitted to the City for review and input.

Moving to the tunnel dewatering pump station, Ms. Rotunno advised that work is ongoing 200 feet below ground. The top level of the immense cavern has been completed from shaft to shaft. Small protrusions that look like a pin cushion are rock bolts that hold up the rock and roof. A couple hundred rock bolts have been put in with more to come.

Ms. Rotunno advised that the top rock heading was completed on March 26, when the top was fully expanded. The deformation in the rock roof is exceeding the engineers' expectation at the time of design. Additional rock dowels are going in and roof drains are being installed to make certain there are no corrosion issues from infiltrating groundwater. Wire mesh is being installed.

Ms. Rotunno stated that an exploratory bore scope was performed, which gets into the rock to see how the rock is moving and what causes movement. Additional and longer rock bolts are being considered. The design is being modified during construction to accommodate more movement in the cavern than was anticipated.

Mr. Brown questioned if there is an impact to the schedule. Ms. Rotunno advised that at this point it is unclear if the schedule will be impacted. The contractor is being extremely cooperative in terms of responding to requests for additional materials and working with staff on constructability for the additional material installations the engineer is requesting.

The team is working together very well through these issues. She has full confidence that the long-term integrity of the roof will be stabilized and ensured. The rock is performing differently than the designer expected, which requires more work during construction to secure it.

Mr. Brown stated that there is a unit cost for this item and the quantities may change. Ms. Rotunno stated that costs are increasing over the base contract but are well within the general allowance provision of the contract. A \$68 million dollar contract may have a \$6 million allowance. The final pricing is not yet known but is probably in the \$500,000 to \$1 million range for the additional bolts. She was confident costs would be contained within the general allowance provision of the contract.

Moving to the Renewable Energy Facility (hereinafter "REF"), Ms. Rotunno advised that discussions continue during the final stages of the project with the IDI equipment provider. IDI,

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Operations and Engineering are coordinating on the startup and documentation of operational demonstration. There is a “bake out, boil out,” which is the newest acronym in the engineering department, or “BOBO,” scheduled for the second week of April. Sludge is scheduled on incinerator 3 the second week in May. The first incinerator starting up will be number 3.

Moving to Key Performance Indicators (hereinafter “KPIs”), Ms. Rotunno advised that the goal 85% of cash flow was still lagging behind at 62%, which is largely attributable to the cavern excavation not proceeding according to schedule. Cash flow was pushed into the future. She explained that is important because business opportunity cash flow will also be 62% if overall cash flow is 62%. Executive Director Ciaccia stated that the cash flow issue as it relates to the dewatering pump station is not related at this point to the issue with the rock not moving as anticipated.

Ms. Rotunno stated that only two projects have been bid so far this year, with an average variance of 0.1%.

No designs have been completed, so there is nothing to report on in terms of timely completion. However, there are some cost savings to report.

The team in the field identified a simple material substitution with the Euclid Creek Tunnel that resulted in \$20,000 savings. The big savings are coming through the Easterly Secondary Improvement Project and staff’s ability to use high-rate disinfection and high-rate clarification.

Ms. Rotunno stated that the savings are credited to several staff members she wanted to acknowledge: Engineering project manager Bill Donahue; Robin Halperin, of the regulatory compliance group of the Watersheds Department; Bob Bonnett, the Easterly plant manager who collaborated with the engineer; and Brown and Caldwell and Montgomery & Watson to identify nearly \$13 million savings on that one project.

Lastly, Ms. Rotunno advised that a lining piece of the pipe was deleted at the Euclid Creek Tunnel, which saved \$120,000. \$13 million in savings was identified in a month in combination with the previous total to over \$15 million in the design savings for 2013. She stated that it is important to highlight these decisions because they are part of their standard practice. These costs will never affect bids or cash flow because they were designed differently.

Concluding her report, Ms. Rotunno advised that so far this year three projects closed within the cumulative average of 93%, which is within the 95% KPI goal. Projects have been awarded projects as planned. The completion of construction projects continues to lag, but on the aggregate projects have closed with an average variance of 300 in three days. Mill Creek comprises a big chunk of that and was in litigation.

VII. Public Session (any subject matter)

No members of the public registered to speak during Public Session.

VIII. Open Session

There were no matters for Open Session.

IX. Executive Session

Mr. Brown stated that there were no matters for discussion during Executive Session.

X. Adjournment

MOTION – Mr. Brown stated business having been concluded, he would entertain a motion to adjourn. Mayor Bacci moved and Mr. O'Malley seconded the motion to adjourn at 1:28 p.m. Without objection, the motion carried unanimously.



Sheila J. Kelly, Secretary
Board of Trustees
Northeast Ohio Regional Sewer District



Darnell Brown, President
Board of Trustees
Northeast Ohio Regional Sewer District